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Cotton and Products

Quarterly Lock up Report

2007

Approved by:

Holly Higgins

U.S. Embassy, New Delhi

Prepared by:

Santosh Kr. Singh

Report Highlights:

Post maintains the estimate for MY 2006/07 (August-July) cotton production at a record 21.0 million 480 lbs bales (4.57 million tons), which is supported by the strong pace of market arrivals so far this year. Consumption is raised to 18.3 million bales (3.99 million tons) on higher than anticipated demand for cotton textile products, both export and domestic. Exports are forecast at 4.3 million bales (935,000 tons), a record level for India.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I: SITUATION AND OUTLOOK

Table 1: Commodity, Cotton (480 lb bales), PSD

Country	India								
Commodity	Cotton						(HECTARES) 1000 480 lb. Bales (PERCENT) (KG/HA)		
	2004	Revised		2005	Estimate		2006	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2004	08/2004		08/2005	08/2005		08/2006	08/2006
Area Planted	8920	8786	8786	8830	8873	8873	9250	9250	9250
Area Harvested	8920	8786	8786	8830	8873	8873	9250	9250	9250
Beginning Stocks	4186	4186	4186	8764	8764	8764	8414	7864	8264
Production	19000	19000	19000	19200	19200	19050	21000	21000	21000
Imports	1038	1038	1038	400	400	400	500	390	390
MY Imports from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	24224	24224	24224	28364	28364	28214	29914	29254	29654
Exports	660	660	660	3450	4000	3450	5000	4200	4300
Use	13726	13726	13726	15267	15267	15267	16673	16397	16973
Loss	1074	1074	1074	1233	1233	1233	1327	1327	1327
Total Dom. Cons.	14800	14800	14800	16500	16500	16500	18000	17724	18300
Ending Stocks	8764	8764	8764	8414	7864	8264	6914	7330	7054
Total Distribution	24224	24224	24224	28364	28364	28214	29914	29254	29654
Stock to Use %	60.92034	60.92034	60.92034	44.95379	40.8159	44.15237	31.90144	35.58771	33.1594
Yield	464	471	471	473	471	467	494	494	494

Note: Production Figures for MY 2004, 2005 and 2006 include 937,000 bales of loose cotton.

Strong Market Arrivals Confirm Record MY 2006/07 Crop

Post maintains the estimate for MY 2006/07 cotton production at a record 21.0 million bales (4.57 million tons). The latest cotton market arrival figures support this estimate. The Cotton Advisory Board is currently estimating production at 21.1 million bales, while estimates of various industry sources range from 20.7 to 21.5 million bales.

Market arrivals of cotton from this year's crop up to February 17, 2007, were 20 percent ahead of last year at 15.9 million bales¹. Arrivals have eased since early February, with the current arrivals estimated at 55 to 63 thousand bales per day vs. 115 to 120 thousand bales a year ago, and are expected to remain at this level through April. Market sources attribute this to larger than normal arrivals of seed cotton by farmers during the peak marketing season (November through January) due to a higher share of Bt cotton varieties. Bt cotton varieties give excellent yields in early pickings, and thus farmers take only 2-3 pickings. However, in the case of traditional varieties, farmers take 4-5 pickings resulting in a longer harvesting period and a consequent extended marketing season compared to Bt cotton. Absence of winter rains (November/December) this year also adversely affected additional cotton pickings from the rainfed cotton growing states² of Gujarat, Maharashtra and M.P. The quality of cotton arriving in most markets this year is reported to be better than in previous

¹ For the latest market arrival and state-wise breakout, refer Cotton Corporation of India website <http://cotcorp.com/CURRENT2.html>.

² The largely rainfed cotton crop in the central states is harvested in October-December. The winter rains result in new flowering, fruiting and cotton flushes in cotton plants leading to additional cotton picking in the month of February, which can vary from 0.5 to 0.7 million bales.

years. Refer to Table 2 for the latest state-wise cotton area and production estimates for MY 2006/07.

MY 2005/06 Production Marginally Lower

On December 22, 2006, the Cotton Advisory Board revised the MY 2005/06 production estimate lower at 24.4 million Indian bales (19.05 million U.S. bales) based on final market arrival figures and cotton pressing figures compiled from the ginning and pressing units in the country. Post's MY 2005/06 production estimate has been revised marginally lower to reflect the official estimate.

Prices Remain Steady Despite Heavy Arrivals

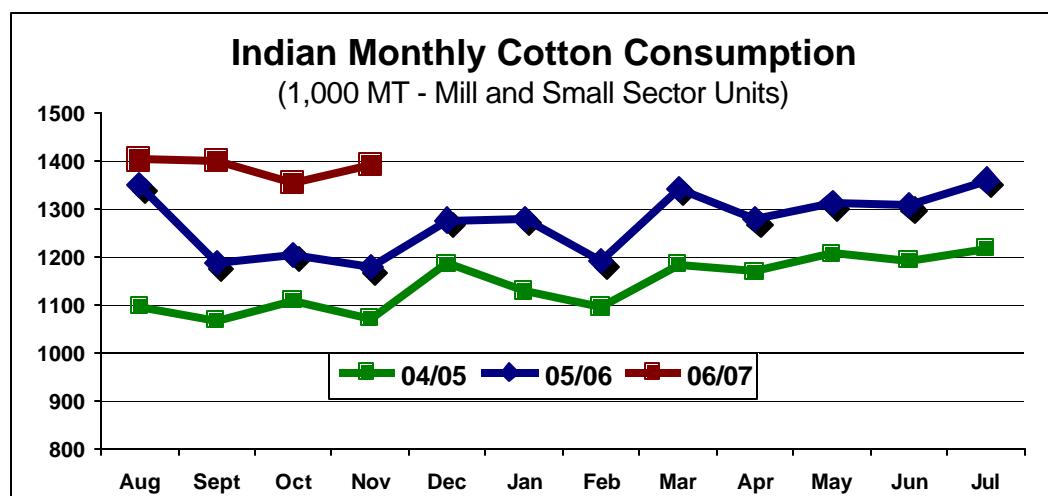
Despite reports of record production and heavy market arrivals, domestic cotton prices remained relatively stable during November 2006 to January 2007 on strong international and domestic demand (refer Table 3). With a slowdown in market arrivals, prices have started firming up since early February, gaining 5 to 10 percent over January-end prices.

Strong export and domestic demand supported domestic prices, with market prices dropping below the minimum support price (MSP) only in a few purchase centers during the peak arrival time. Cotton procured by the government under the MSP operation during the current season is estimated at 1.4 million bales compared with 1.6 million bales last year and 5.5 million bales in 2004/05.

Although Indian cotton was competitively priced vis-à-vis cotton from other origins from the beginning of the Indian marketing season (October 2006) through January 2007, current domestic prices are 4 to 5 percent above comparable international quotations. Prices are expected to remain firm through April as arrivals diminish, while international cotton prices will guide domestic prices during the later part of the season.

MY 2006/07 Consumption Raised

Post revised the MY 2006/07 consumption estimate upward to 18.3 million bales (3.99 million tons) on higher than anticipated growth, driven by strong domestic and export demand for cotton yarn and textile products.



Source: The Textile Commissioners' Office, Government of India (GOI).

Consumption during August through November 2006 was 13 percent higher than the comparable period last year. Strong economic growth, rising consumer incomes, and an expanding middle class will continue to fuel growth in domestic demand for cotton textile products. With Indian cotton being the cheapest in the world, there has been strong export demand for cotton yarn and fabrics from India. The Indian textile industry, particularly the spinning sector, has been in a rapid expansion mode in recent years, adding 2 to 2.5 million new spindles every year, which is likely to continue this year. Expanding spinning capacities and continued high prices of man-made fiber and yarn have further fueled the growth in cotton consumption during the current season. Consequently, MY 2006/07 consumption is estimated to reach 18.3 million bales.

MY 2006/07 Exports Revised Higher

Post's MY 2006/07 export estimate is revised higher at 4.3 million bales (935,000 tons) based on strong export contracting during the early season due to competitive domestic cotton prices vis-à-vis international prices. Therefore, India is expected to continue as one of the top three global exporters of cotton during the current season after being a net importer until 2004/05. The import estimate remains unchanged at 390,000 bales.

Although official statistics are not yet available, market sources³ report that about 230,000 bales of the MY 2005/06 cotton crop were shipped during August-September 2006. About 3.3 to 3.5 million bales of MY 2006/07 season cotton have been contracted for exports from October 2006 to February 2007 for delivery through April 2007, of which about 2.2 to 2.4 million bales has been already shipped. New export contracts have ceased with Indian cotton now losing its competitive edge in the world market. It appears that only a strong gain in international cotton prices can support India's export prospects in the coming months. Furthermore, non-availability of quality cotton could also constrain exports. Assuming no significant change in the price parity between local and international cotton, MY 2006/07 exports are estimated at 4.3 million bales 937,000 tons).

For the first six months of the MY 2006/07, the major export destination for Indian cotton was China (60 percent), followed by Turkey, Pakistan, Bangladesh, Pakistan, Taiwan, Indonesia and other far-east countries. Shankar-6 (28-29 mm) was the largest exported variety, followed by varieties of the staple length 30-33 mm at prices ranging between 49 cents/lb. to 56 cents/lb FOB, Indian ports.

Due to adequate domestic supplies, cotton imports during the current season so far have been limited to extra long staple (ELS) cotton and some specialty cotton. Larger production of local ELS cotton DCH -32, and subdued demand for finer count yarns in the international market limit future imports. Market sources also report that cotton imports during MY 2006/07 will be the same or lower than last year's imports (400,000 bales). Consequently, MY 2006/7 imports remains unchanged at 390,000 bales (85,000 tons).

³ Official estimates on cotton exports compiled by the DGCIS, Ministry of Commerce are incomplete and available only after a lag of 6 to 8 months. No official or industry source compiles information on cotton export contracts.

SECTION II: STATISTICAL TABLES

Table 2: Area, Production⁴ & Yield of Cotton in Major States

(Area 000 ha; Production 000 bales of 480 lbs, Yield lb./ha)

STATE		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Maharashtra	Area	2980	2800	2766	2840	2889	3125
	Production	2674	2030	2420	4060	2811	3670
	Yield	431	348	420	686	467	564
Gujarat	Area	1687	1634	1647	1906	2077	2390
	Production	2538	2381	3904	5700	6949	7418
	Yield	722	700	1138	1435	1606	1490
Madhya Pradesh	Area	623	545	591	576	600	660
	Production	1562	1405	1534	1249	1405	1405
	Yield	1203	1238	1246	1041	1124	1022
Punjab	Area	600	449	452	509	557	618
	Production	722	586	808	1288	1562	1952
	Yield	578	626	858	1215	1346	1516
Haryana	Area	610	519	526	621	583	530
	Production	429	683	898	1210	1015	1171
	Yield	338	632	819	935	836	1061
Rajasthan	Area	347	386	344	438	472	310
	Production	547	390	714	859	859	703
	Yield	756	485	997	941	873	1088
Andhra Pradesh	Area	1002	803	837	1178	1037	950
	Production	2089	1542	2139	2538	2499	2733
	Yield	1001	922	1227	1034	1157	1381
Karnataka	Area	591	393	313	521	450	450
	Production	547	390	328	625	508	547
	Yield	444	477	503	575	541	583
Tamil Nadu	Area	200	85	103	129	136	140
	Production	390	234	293	429	429	390
	Yield	937	1323	1364	1598	1516	1339
Others	Area	90	53	51	68	72	77
	Production	59	78	78	78	78	78
	Yield	312	707	735	551	521	487
All-India	Area	8730	7667	7630	8786	8873	9250
	Production	11556	9721	13117	18036	18114	20066
	Yield	225	216	292	349	347	369

⁴ Production figures for MY 1999/2000 to MY 2006/07 in the PS&D include loose cotton estimates.

Table 3: Month-end Prices of Popular Indian Cotton Varieties
(Rupees per ton)

Year	Bengal Deshi	SG J-34	H-4	Shankar-6	MCU-5	DCH-32
	(below 22 mm)	(25 mm)	(28 mm)	(29 mm)	(33 mm)	(35 mm)
2005/06						
Aug	35150	43030	43870	46680	56240	89430
Sep	35150	41620	44430	50620	53990	88580
Oct	36840	41900	46400	48650	53990	88580
Nov	40490	42740	47520	48930	57930	109670
Dec	39370	44150	47810	50620	63270	126540
Jan	37400	42460	47520	51180	62990	122330
Feb	36560	42740	46680	51180	62990	112490
Mar	35430	42460	46960	51180	61860	116700
Apr	39090	46400	47800	51740	61860	118100
May	37400	44990	45270	50330	58210	118100
Jun	39090	47240	47240	51460	57360	118100
July	41620	47800	50620	53710	57650	112480
2006/07						
Aug	41620	48930	52020	57360	60180	111070
Sep	41900	45830	50050	53150	59610	108260
Oct	41340	44990	48930	51740	58490	97010
Nov	40770	43310	48090	50330	73110	90000
Dec	39930	43590	47800	50330	73110	90000
Jan	37680	43300	48650	50620	58490	90000
Feb 21	41060	48090	51180	52870	61300	92800

Source: East India Cotton Association (EICA), Mumbai.